

REPORT OF
FINANCIAL EXAMINATION

**ACADEMY LIFE
INSURANCE COMPANY**

AS OF
December 31, 2003

STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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April 7, 2005
Cedar Rapids, Iowa

Honorable Kevin McCarty, Commissioner
Florida Office of Insurance Regulation
Chair of the NAIC Financial Condition (E) Committee

Honorable Jorge Gomez, Commissioner
Wisconsin Office of the Commissioner of Insurance
Secretary of the Midwestern Zone, NAIC

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 630
Jefferson City, MO 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

ACADEMY LIFE INSURANCE COMPANY

also referred to as the "Company." The Company's main administrative office is at 4333 Edgewood Road, Cedar Rapids, Iowa 52499, telephone number (610) 648-5000. This examination began on June 7, 2004 and concluded April 7, 2005.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Academy Life Insurance Company was as of December 31, 2000, and was conducted by examiners from the state of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2001, to December 31, 2003, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. The firm of Lewis & Ellis, Inc., Actuaries & Consultants, reviewed reserves and related actuarial items pursuant to a contract with the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring after December 31, 2003.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Company's independent auditors for 2003 were made available to the examiners. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments – Previous Examination

The general comments and recommendations in the previous examination report and the Company's response and/or subsequent action taken by the Company are listed below.

1. Comment: It is recommended that all interrogatories in the annual statement be completed correctly.

Company's Response: "We agree with your comment and will be more careful with these items in the future."

Current Findings: The interrogatories were properly completed.

2. Comment: The Company is directed to implement appropriate policies and procedures to ensure that the net amount invested in or advanced to affiliates does not exceed thirty percent of the Company's capital and surplus at any time.

Company's Response: This restriction has been communicated to our Investment Division for the establishment of these limitations.

Current Findings: The Company's net investment or advance to affiliates did not exceed thirty percent of the Company's capital and surplus.

3. Comment: The Company is directed to complete Schedule E – Part 2 in accordance with the NAIC annual statement instructions.

Company's Response: This item has been communicated to the appropriate personnel in our Investment Division for proper handling in future annual statements.

Current Findings: The Company completed Schedule E appropriately.

4. Comment: The Company is directed to complete all the items on all the questionnaires immediately as requested by the Chief Financial Examiner. The completed questionnaires and related documentation should be submitted to the Audit Manager, St. Louis, Missouri Department of Insurance.

Company's Response: This was simply an oversight, brought about by our handling multiple financial examinations at the same time. We agree with your comment and will send completed questionnaires at the beginning of future examinations.

Current Findings: Questionnaires were provided prior to the beginning of examination fieldwork.

HISTORY

General

Academy Life Insurance Company was incorporated in Colorado as a capital stock life insurance company on October 8, 1963, under the name Academy Life and Accident Insurance Corporation and commenced business on November 20, 1963. The corporate name was changed to Academy Life Insurance Company on December 30, 1963. In 1971, the name was changed to Security Life of Denver Insurance Company. As of December 31, 1971, the Company was a wholly owned subsidiary of Security Life and Accident Company of Denver, Colorado.

Effective July 1, 1972, the Company was sold to Unicom Insurance Group, Inc. Unicom Insurance Group, Inc. changed its name to Academy Insurance Group, Inc. in May 1974.

On January 15, 1993, Capital Holding Corporation (name changed to Providian Corporation on May 11, 1994) purchased 100% of Academy Insurance Group, Inc. Capital Holding Corporation then contributed all the stock of Academy Insurance Group, Inc. to Worldwide Underwriters Insurance Company (name changed to Providian Auto & Home Insurance Company in 1994), a wholly owned subsidiary of Capital Holding Corporation. On August 12, 1993, Academy Life Insurance Company re-domesticated from Colorado to Missouri.

On April 29, 1997, the Director of the Missouri Department of Insurance approved the acquisition of Academy Life Insurance Company, and two other Missouri subsidiaries of Providian Corporation by AEGON International NV, a subsidiary of AEGON NV. Subsequent to this purchase, Providian Corporation changed its name to Commonwealth General Corporation. The financial service subsidiaries of Providian Corporation were spun-off and retained the Providian name.

On December 31, 1997, Providian Auto & Home Insurance Company returned all the stock in Academy Insurance Group, Inc. to Commonwealth General Corporation. This transaction was treated as a stock dividend and was approved by the Missouri Department of Insurance.

Capital Stock

The Company is authorized to issue one million shares of common stock with a par value of \$2.50 per share. As of December 31, 2003, one million shares were issued and outstanding resulting in common capital stock of \$2,500,000. Capital paid-in, in excess of par value, was \$49,890,569 at the end of the prior examination. Subsequently, in 2001, the Company issued an extraordinary dividend of \$20 million out of paid-in-surplus with the Missouri Department of Insurance's approval. The Company's parent paid a capital contribution on February 13, 2003 of \$7 million. The Missouri Department of Insurance allowed the Company to accrue the \$7 million contribution on the December 31, 2002 Annual Statement. With the changes noted above, the Capital paid-in, in excess of par value, went from \$49,890,569 at the beginning of the period to \$36,890,569 at the end of the period.

Dividends

The Company has declared and paid dividends to stockholders as follows:

	<u>Cash</u>	<u>Stock</u>
Through December 31, 2000	\$ 99,115,283	\$ -
2001	20,000,000	-
2002	10,400,000	-
2003	-	-
Total	<u>\$ 129,515,283</u>	<u>\$ -</u>

On December 21, 2001, the Company paid an extraordinary dividend of \$20,000,000. This dividend was approved by the Missouri Department of Insurance on December 20, 2001. The Company also paid an ordinary dividend of \$10,400,000 in 2002, resulting in dividends to stockholders during the examination period of \$30,400,000.

Management

The Board of Directors consisted of nine members duly elected at an annual meeting of the stockholder as authorized by the Company's Articles of Incorporation. The directors duly elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Brenda K. Clancy	Treasurer and Executive Vice President- Information, Finance AEGON USA, Inc.
Kevin Crist	Treasurer Academy Life Insurance Company
Nik Godon	Vice President Life Investors Insurance Company of America
Roger W. Hallquist	Vice President and Actuary of Life Investors Insurance Company of America
Michael W. Kirby <i>Resigned (4/5/04)</i>	President and Chairman of the Board Life Investors Insurance Company of America

<u>Name</u>	<u>Principal Occupation</u>
Andrew W. Martin	Secretary Academy Life Insurance Company
Diane Meiners	Vice President Academy Life Insurance Company
Paul Reaburn	President and Chairman of the Board Academy Life Insurance Company
Jack Winnike	Vice President and Assistant Secretary Academy Life Insurance Company

The Bylaws provide that the Board of Directors may designate an executive committee, and an audit committee and will designate an investment committee. The Company dissolved the executive and audit committees on July 30, 2003. Directors appointed and serving on the investment committee as of December 31, 2003, were as follows:

Investment Committee

Paul Reaburn
Kevin Crist
Brenda K. Clancy

The following list includes the officers per the Jurat page of the Annual Statement and other corporate officers elected and serving as of December 31, 2003. There were many more vice presidents, assistant secretaries and assistant treasurers not listed below.

<u>Name</u>	<u>Office</u>
Paul D. Reaburn	President and Chairman of the Board
Andrew W. Martin	Secretary
Kevin M. Crist	Treasurer
Robert J. Kontz	VP and Corporate Controller
Darryl D. Button	Vice President and Corporate Actuary
Jon Canine	Vice President and Actuary
Kathleen M. Modzelewski	Vice President Director of Taxes

<u>Name</u>	<u>Office</u>
Mary J. Tresnak	Vice President - Compliance Assistant General Counsel
Jack Winnike	Vice President and Assistant Secretary
Robert S. Jett	Assistant General Counsel Assistant Secretary
Diane Meiners	Vice President
Laurie Hubbard	Vice President
Mary E. Taiber	Vice President

Conflict of Interest

Annually, the AEGON USA, Inc., Business Policy Statement and Conflict of Interest Reporting Form is sent to all directors, officers and other designated individuals of Academy Life Insurance Company. They are required to return the Conflict of Interest Reporting Form to the corporate law department. All forms are reviewed and a report including all disclosures is prepared for the general counsel's review. There were no material conflicts of interest noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. The Articles of Incorporation were not amended during the period being examined. The Board of Directors amended the Bylaws on January 24, 2002 to change the location of the principal place of business. The Bylaws were again amended on July 30, 2003, to make the Executive and Audit Committees optional rather than a requirement.

The minutes of the meetings of the stockholder and Board of Directors were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions.

Acquisitions, Mergers, and Major Corporate Events

None.

Surplus Debentures

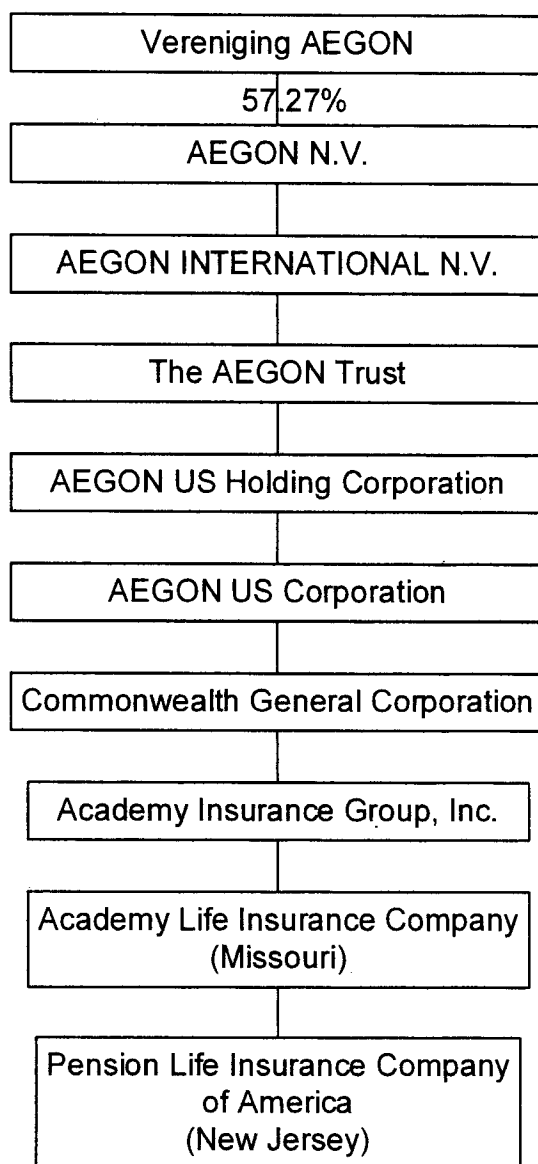
None.

AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

The Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The ultimate controlling person is Vereniging AEGON, a membership association established under the laws of the Netherlands. Vereniging AEGON holds the majority voting control of AEGON N.V., a public limited liability company established at the Hague under the laws of the Netherlands.

Organizational Chart

The following organizational chart depicts the Insurance Holding Company System as of December 31, 2003. The chart includes only the Company, its parents and insurance company subsidiary. A complete organizational chart is included in the Company's annual statement. All subsidiaries are wholly owned unless noted otherwise.



General Operating Agreements

During the period under examination the Company was party to a number of intercompany agreements with several of their affiliates. Reinsurance agreements are discussed in the reinsurance section of this report. Some of the major agreements are discussed below:

1. Type: Master Inter-Company Short-Term Loan Agreement

Parties: AEGON USA, Inc. and its specified subsidiaries including the Company.

Effective: July 14, 1998

Terms: On July 14, 1998, the Company became a party to an intercompany short-term loan agreement dated November 14, 1994, between AEGON USA, Inc. and its specified subsidiaries. The agreement defines the terms under which the related parties may borrow or lend funds for periods of less than twelve months. The interest rates and terms are set forth in a grid schedule. Loans may be prepaid and are due on demand. The Company received net interest income from affiliates of \$207,566 in 2001, \$16,881 in 2002, and 11,976 in 2003. Interest is calculated on intercompany accounts as well as intercompany loans.

2. Type: Intercompany Services Agreement

Parties: Monumental Life Insurance Company and Academy Life Insurance Company

Effective: December 1, 1998

Terms: Monumental Life Insurance Company, provides administrative services (including policy issuance, policy service and claims adjudication) for accident and health policies (including medicare supplement, hospital indemnity, hospital accident and tricore) sold by the Company. The Company reimburses Monumental Life Insurance Company for the cost of the services as specified in the contract. The contractual reimbursement is primarily based on the specified rates per transaction.

3. Type: Intercompany Services Agreement
- Parties: Pension Life Insurance Company of America and Academy Life Insurance Company
- Effective: June 10, 1999
- Terms: The Company provides all administrative services required by Pension Life Insurance Company of America, a wholly owned subsidiary. The Company is reimbursed for the cost of providing the services calculated in accordance with generally accepted accounting principles.
4. Type: Investment Management Agreement
- Parties: AEGON USA Investment Management, LLC., and Academy Life Insurance Company
- Effective: October 2, 2001
- Terms: The Company appointed AEGON USA Investment Management, LLC to act as a discretionary investment manager. The investment manager agreed to invest the Company's funds in accordance with the Company's investment objectives, policies and restrictions. Custody of account assets will be maintained with the independent custodian selected by the Company. The Company will pay the manager quarterly investment fees calculated using amortized book values at annual rates ranging from .15% for cash balances to .25% for equity securities.
5. Type: Management and Administrative and Advisory Agreement
- Parties: AEGON USA Real Estate Services, Inc., AEGON USA Realty Advisors, Inc. and AEGON USA Realty Management, Inc. (collectively referred to as "Advisor"), and Academy Life Insurance Company
- Effective: December 5, 1997
- Terms: Pursuant to the agreement, the Advisor will serve as the administrator and advisor for the Company's real estate and mortgage loan operations including property acquisition, management and disposition. Services include economic and market research, appraisal and financial advice. The Company is responsible for the cost of professional services

provided by third parties, all expenses of ownership and leasing. For the services rendered, the Advisor will be paid monthly fees based on the value of the Company's real estate and mortgage loans and the revenue produced by the managed assets as specified in the contract.

6. Type: Cost Sharing Agreement

Parties: AEGON Insurance Group of Companies including Academy Life Insurance Company

Effective: October 20, 2000

Terms: The Company is a party to a cost sharing agreement with its affiliates under which the companies agree to share the services of employees and the use of equipment, furniture and other property. The companies agree to allocate the cost of the services in a fair and equitable manner. Services are provided by divisions organized by product lines and markets. The Company participates primarily in the Individual Division. Costs are allocated to the participating companies primarily based on the cost of policy issuance, policy maintenance and claims processing.

7. Type: Tax Allocation Agreement

Parties: AEGON U.S. Holding Corporation and its consolidated domestic subsidiaries (including the Company)

Effective: January 1, 2003

Terms: Effective January 1, 2003, the Company, with an amendment, joined AEGON U.S. Holding Corporation and its consolidated domestic subsidiaries in a tax allocation agreement under which the participants agree to file a consolidated federal income tax return. Amounts allocated under the agreement are settled within thirty days of filing the federal income tax return or within fifteen days of the due date for estimated payments. The tax allocated to a participant shall not be more than the participant would have paid if a separate tax return had been filed. The participant will be reimbursed for tax credits, losses and any loss carryover generated by the participant to the extent actually used in the consolidated return. Prior to this agreement, the Company filed separate federal income tax returns.

FIDELITY BOND AND OTHER INSURANCE

The Company has fidelity coverage under a Financial Institution Blanket Bond Form 25 that insures AEGON N.V. and its subsidiaries. The bond has an aggregate limit for the bond term of \$10,000,000. The single loss deductible for the Company is \$10,000. AEGON N.V. and its subsidiaries are also insured under an umbrella bond with limits of \$25,000,000 in excess of the \$10,000,000. The coverage complies with the NAIC guidelines for fidelity coverage.

The Company is also protected by other policies purchased by AEGON N.V. and its subsidiaries. Coverages include property, commercial general liability, automobile liability, agents and broker/dealer E&O liability, directors and officers' liability, and workers' compensation and employer's liability insurance.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no employees. Services required by the Company are provided by employees of affiliates under the intercompany services agreements described in more detail under the "Intercompany Transactions" section of this report. Those employees are offered benefits typical for the industry including paid holidays, vacation, sick leave, short and long term disability, medical, dental and vision coverages. They may also participate in the 401(k) savings plan, and in pension and employee stock option plans sponsored by AEGON USA, Inc.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 376.290 RSMo (Deposit and transfer of securities).

<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Bond	<u>\$2,130,000</u>	<u>\$2,280,431</u>	<u>\$2,270,656</u>

Deposits with Other States

The Company also has funds on deposit with various other states and jurisdictions. Those funds on deposit as of December 31, 2003, were as follows:

<u>State / Other</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Arkansas	U.S. Treasury Bond	\$110,000	\$146,369	\$112,993
Florida	U.S. Treasury Note	850,000	910,031	906,130
Georgia	U.S. Treasury Note	35,000	37,472	37,311
Michigan	U.S. Treasury Note	2,825,000	3,024,516	3,011,550
New Mexico	U.S. Treasury Note	100,000	107,063	106,604
North Carolina	U.S. Treasury Note	1,300,000	1,729,812	1,335,377
Virginia	U.S. Treasury Bond	240,000	319,350	246,531
Virginia	U.S. Treasury Note	270,000	289,069	287,830
Guam	U.S. Treasury Bond	<u>50,000</u>	<u>66,531</u>	<u>51,361</u>
Total		<u>\$5,780,000</u>	<u>\$6,630,213</u>	<u>\$6,095,687</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 376 RSMo (Life and Accident Insurance) to write life and accident and health insurance. The Company is also licensed to write insurance in the District of Columbia, Guam and all the other states except Connecticut, Massachusetts, Michigan, New Hampshire, New Jersey, New York and Wisconsin.

The Company has primarily written life insurance including universal life, whole life and term. In addition, the Company has written a limited amount of accident and health insurance including medicare supplement, hospital indemnity and Tricare.

The insurance products have been marketed to non-commissioned members of the armed services. The Company has not been actively marketing new business since 2000. Life Investors Insurance Company of America, an affiliate, has licensed the agents formerly licensed by the Company.

Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent Missouri Market Conduct Examination was completed in 1999. The Market Conduct Report did not disclose any issues having a significant impact on the financial condition of the Company.

REINSURANCE

General

The Company uses reinsurance to limit its maximum loss, provide greater diversification, and minimize exposure on larger risks. The ceding of insurance does not discharge the primary obligation of the Company to the policyholder.

Premiums reported during the period under examination were as follows:

	<u>2,001</u>	<u>2,002</u>	<u>2,003</u>
Direct	\$ 48,534,629	\$ 37,198,460	\$ 38,507,032
Assumed	623,910	597,813	560,005
Ceded	<u>16,627,008</u>	<u>11,084,309</u>	<u>11,012,528</u>
Net Premiums	<u>\$ 32,531,531</u>	<u>\$ 26,711,964</u>	<u>\$ 28,054,509</u>

Assumed

During the period being examined, the Company assumed life insurance renewal premiums (no first year premiums) under five reinsurance treaties. The most significant treaty was a fifty percent coinsurance contract dated August 1, 1972, with American Fidelity Life Insurance Company. Under this treaty, the Company assumed \$394,953 premiums on Career Option Plan policies in 2003.

Ceded

Under a coinsurance agreement effective December 31, 1992, the Company ceded 100% of its accident and health business to Peoples Benefit Life Insurance Company, an affiliate. Under this treaty, the Company also reinsured certain life insurance policies (50% to 100% depending upon the policy type). Premiums of \$10,715,954 were ceded under this treaty in 2003.

The Company had approximately ten other reinsurance treaties in force under which immaterial premiums and reserves were ceded.

ACCOUNTS AND RECORDS

Ernst & Young LLP, Certified Public Accountants, audited the Company's financial statements for the years under examination. Jonathan Canine, FSA, MAAA, Vice President & Actuary of Academy Life Insurance Company reviewed and certified the Company's reserves and related actuarial items as of December 31, 2003.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Amounts Per Annual Statement			Notes	Examination Findings	
	Ledger Assets	Assets Not Admitted	Net Admitted Assets		Examination Adjustments	Net Admitted Assets
Bonds	\$259,725,930		\$259,725,930			\$259,725,930
Common stocks	9,814,048		9,814,048			9,814,048
First liens - mortgage loans	20,588,101	2,445,651	18,142,450			18,142,450
Cash and short-term investments	13,517,402	2,962,359	10,555,043			10,555,043
Contract loans	51,024,405		51,024,405			51,024,405
Subtotal Cash and Invested Assets	\$354,669,886	\$5,408,010	\$349,261,876			\$349,261,876
Investment income due and accrued	\$4,873,212		\$4,873,212			\$4,873,212
Uncollected premiums and agents balances	148,382		148,382			148,382
Premiums deferred and uncollected	1,927,702		1,927,702			1,927,702
Other amounts receivable under reinsurance contracts	28,452		28,452			28,452
Net deferred tax asset	21,763,181	17,910,203	3,852,978			3,852,978
Guaranty funds receivable or on deposit	38,935	1,154	37,781			37,781
Receivable from parent, subsidiaries & affiliates	368,519		368,519			368,519
Health care and other amounts receivable	167,629	167,629				
Accounts receivable	98,640	6,863	91,777			91,777
Total Assets	\$384,084,538	\$23,493,859	\$360,590,679			\$360,590,679

LIABILITIES, SURPLUS AND OTHER FUNDS

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Examination
Life reserves	\$229,766,037			\$229,766,037
Liability for deposit-type contracts	65,409,789			65,409,789
Life (policy and contract claims)	2,936,103			2,936,103
Policyholders dividends and coupons due and unpaid	1,064			1,064
Dividends apportioned for payment	982,487			982,487
Premiums and annuity considerations received in advance	23,945			23,945
IMR	5,687,439			5,687,439
General expenses due or accrued	2,835,000			2,835,000
Taxes, licenses and fees due	609,988			609,988
FIT and foreign income taxes	626,060			626,060
Amounts withheld	1,275,247			1,275,247
Amounts held for agents accounts	581,625			581,625
Remittances and items not allocated	628,366			628,366
Asset valuation reserve	157,796			157,796
Payable to parent, subsidiaries & affiliates	3,073,827			3,073,827
Total Liabilities	\$314,594,773			\$314,594,773
Common capital stock	\$2,500,000			\$2,500,000
Gross paid in surplus	36,890,569			36,890,569
Unassigned funds	6,605,337			6,605,337
Total Liabilities, Capital and Surplus	\$360,590,679			\$360,590,679

SUMMARY OF OPERATIONS

	Amounts Per Annual Statement
Premiums and annuity considerations	\$28,054,510
Net investment income	18,018,543
Amortization of interest maintenance reserve (IMR)	700,143
Commissions and expense allowances on reinsurance ceded	1,407,929
Miscellaneous income	17,062
Totals	\$48,198,187
Death benefits	\$10,144,568
Matured endowments	(\$1,220)
Surrender benefits	10,168,346
Interest and adjustments on contract or deposit-type contract funds	2,705,780
Increase in reserves for life and A&H policies	4,852,113
Totals	\$27,869,587
Commissions on premiums	\$70,789
Commissions on reinsurance assumed	28,720
General insurance expenses	3,894,916
Taxes, licenses and fees	714,807
Increase in loading on deferred and uncollected premiums	(79,368)
Fines and penalties	114,641
Totals	\$32,614,092
Gain from operations before dividends and federal income taxes	\$15,584,095
Dividends to policyholders	415,652
Net gain after dividend and before FIT	\$15,168,443
Federal income taxes	2,929,279
Net gain after dividend and FIT	\$12,239,164
Net realized capital gain (loss)	529,390
Net income	\$12,768,554

CAPITAL AND SURPLUS ACCOUNT

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Examination
Capital and surplus prior year	\$34,808,104			\$34,808,104
Net income	\$12,768,554			12,768,554
Net unrealized capital gains	(1,327,901)			(1,327,901)
Change in net deferred income tax	(3,073,790)			(3,073,790)
Change in non-admitted assets	2,962,642			2,962,642
Change in liability for reinsurance in unauthorized companies	16,093			16,093
Change in AVR	(157,796)			(157,796)
Cumulative effect of examination changes				
Change in surplus as regards policyholders for the year	\$11,187,802			\$11,187,802
Capital and surplus December 31, 2002	\$45,995,906			\$45,995,906

NOTES TO FINANCIAL STATEMENTS

NONE

EXAMINATION CHANGES

NONE

GENERAL COMMENTS AND/OR RECOMMENDATIONS

NONE

SUBSEQUENT EVENTS

Reinsurance Recapture

On June 30, 2004, the Company recaptured the business it had ceded pursuant to a reinsurance treaty with Peoples Benefit Life Insurance Company, an affiliate. The Company received \$81,321,548 as consideration for the recapture and increased reserves by \$88,101,038. Also on June 30, 2004, business covered under a treaty with American Fidelity Life Insurance Company was recaptured from the Company resulting in a payout by the Company of \$8,387,000 and a decrease in reserves of \$9,326,000.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Academy Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Richard Hayes, CFE, Richard A. Stamper, CFE, Michael Gruner, AFE, CPA, and Andy Balas, CFE, CPA, examiners for the Missouri Department of Insurance, participated in this examination. Donna K. Ferguson, FSA, MAAA, associated with Lewis & Ellis, Inc., reviewed the reserves and related actuarial items.

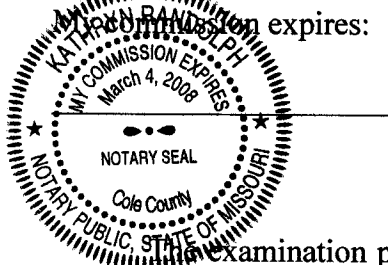
VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Wyatt Sample, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Wyatt Sample, CPE, CPA
Examiner-in-Charge
Missouri Department of Insurance


Sworn to and subscribed before me this 25th day of April, 2005
My commission expires:



Kathryn Randolph
Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


J. Douglas Conley, CFE, FAMI, CIE, AIAF, ARE
Audit Manager, St. Louis
Missouri Department of Insurance